BEFORE

THE PUBLIC SERVICE COMMISSION OF

SOUTH CAROLINA

DOCKET NO. 92-558-W - ORDER NO. 93-920

OCTOBER 14, 1993

IN RE: Application of Eagle Point Water Company, Inc. for an Increase in its Water Rates and Charges.	) ORDER APPROVING) RATES AND) CHARGES

I.

INTRODUCTION

This matter is before the Public Service Commission of South Carolina (the Commission) on the May 10, 1993, Application of Eagle Point Water Company, Inc. (the Company or Eagle Point) for approval of a new schedule of rates and charges for water service provided to its customers in its service area in South Carolina. The Application was filed pursuant to S.C. Code Ann. §58-5-240 (Supp. 1992) and 26 S.C. Regs. 103-821 of the Commission's Rules of Practice and Procedure.

By letter, the Commission's Executive Director instructed the Company to cause to be published a prepared Notice of Filing and Hearing, one-time, in a newspaper of general circulation in the area affected by the Company's Application. The Notice of Filing and Hearing indicated the nature of the Company's Application and advised all interested parties desiring participation in the scheduled proceeding of the manner and time in which to file the appropriate pleadings. The Company was likewise required to directly notify all customers affected by the proposed rates and charges. The Company furnished affidavits demonstrating that the notice had been duly published in accordance with the instructions of the Executive Director and certified that a copy of the notice had been mailed to each customer affected by the rates and charges proposed in the Company's Application. Petitions to Intervene were filed on behalf of Steven W. Hamm, the Consumer Advocate for the State of South Carolina (the Consumer Advocate), and the Eagle Point Property Owners Association (the POA).

The Company's presently authorized rates and charges were approved by Order No. 84-208, issued on March 14, 1984, in Docket No. 83-280-W. According to the Commission Staff's report, the proposed rates and charges would increase water revenue by $5,856 or 66.67%.

The Commission Staff made on-site investigations of the Company's facilities, audited the Company's books and records, and gathered other detailed information concerning the Company's operations. The Consumer Advocate likewise conducted discovery in the rate filing of Eagle Point.

A hearing was convened in the Commission's Hearing Room on September 16, 1993. Pursuant to S.C. Code Ann. §58-3-95 (Supp. 1992), a panel of three Commission members composed of Commissioner Arthur, presiding, and Commissioners Butler and Rowell was designated to hear and rule on this matter. Eagle Point was not represented by counsel; the POA was not represented by counsel; Carl F. McIntosh, Esquire, represented the Consumer Advocate; and Gayle B. Nichols, Staff Counsel, represented the Commission Staff.

II.

FINDINGS OF FACT

Based upon the Application, the testimony and exhibits received into evidence at the hearing, and the entire record of these proceedings, the Commission now makes the following findings of fact:

1. Eagle Point is a water utility providing water service in its service areas within South Carolina, and its operations are subject to the jurisdiction of the Commission, pursuant to S.C. Code Ann.§58-5-10, et seq. (1976), as amended. Eagle Point provides water service to 61 customers.

2. The appropriate test period for the purposes of this proceeding is the twelve-month period ending February 29, 1992.

3. By its Application, the Company is seeking an increase in its rates and charges for water service of $6,000 which Staff has calculated to be $5,856. Eagle Point currently charges its customers $12.00 a month; it is seeking approval to charge $20.00 a month.

4. The appropriate operating revenues for the Company for the test year under present rates and after accounting and pro forma adjustments are $8,784 which reflects an increase in per book revenues.

5. The appropriate operating revenues under the approved rates and under the conditions stated on pages 14 and 15 of this Order are $14,640 which reflects a net authorized increase in operating revenues of $5,856.

6. The appropriate operating expenses for the Company's operations for the test year under its present rates and after accounting and pro forma adjustments are $7,954 which reflects an increase in per book expenses of $1,779.

7. The appropriate operating expenses under the approved rates are $9,127.

8. The Company's reasonable and appropriate federal and state income tax expense should be based on the use of a 15.0% federal tax rate and a 5.0% state tax rate, respectively.

9. The Company's appropriate level of net operating income for return after accounting and pro forma adjustments is $830.

10. The Company should have the opportunity to earn a 37.66% operating margin which is produced by the appropriate level of revenues and expenses found reasonable and approved herein. The Commission concludes that this operating margin is fair and reasonable.

11. The rate design and rate schedule approved by the Commission and the modifications thereto as described herein are appropriate and should be adopted.

12. The rates and charges depicted in Appendix A, attached herein, and incorporated by reference, are approved and effective for service rendered on and after the date of this Order.

III.

EVIDENCE AND CONCLUSIONS

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 1

The evidence supporting this finding concerning the Company's business and legal status is contained in the Company's Application and in prior Commission Orders in the docket files of which the Commission takes notice. This finding of fact is essentially informational, procedural, and jurisdictional in nature, and the matters which it involves are essentially uncontested.

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 2 AND 3.

The evidence for these findings concerning the test period and the amount of the revenue increase requested by the Company is contained in the Application of the Company and the testimony of Company witness Joe P. Moore, President of Eagle Point, and Staff witnesses Steve W. Gunter and William O. Richardson.

On May 10, 1993, the Company filed an Application requesting approval of rate schedules designed to produce an increase in gross revenues of $6,000 which Staff calculated using the appropriate billing units to be $5,856. The Company's filing was based on a test period consisting of the 12 months ending February 29, 1992. The Commission Staff and the parties of record herein likewise offered their evidence within the context of that same test period.

A fundamental principle of the ratemaking process is the establishing of a test year period. The reliance upon the test year concept, however, is not designed to preclude the recognition and use of other historical data which may precede or postdate the selected twelve month period.

Integral to the use of a test year, representing normal operating conditions to be anticipated in the future, is the necessity to make normalizing adjustments to the historic test year figures. Only those adjustments which have reasonable and definite characteristics, and which tend to influence reflected operating experiences are made to give proper consideration to revenues, expenses, and investments. Parker v. South Carolina Public Service Commission, et.al., 280 S.C. 310, 313 S.E. 2d 290 (1984). Adjustments may be allowed for items occurring in the historic test year, but which will not recur in the future; or to give effect to items of an extraordinary nature by either normalizing or annualizing such items to reflect more accurately their annual impact; or to give effect to any other item which should have been included or excluded during the historic test year. The Commission finds the twelve months ending February 29, 1992, to be the reasonable period for which to make its ratemaking determinations herein.

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT

NOS. 4, 5, 6, 7, AND 8.

The evidence for the findings concerning the adjusted level of operating revenues and expenses is found in the testimony and exhibits of Company witness Moore and Commission Staff witnesses

Richardson and Gunter. The Staff adjusted the Company's revenues to reflect items mistakenly omitted from its books and to annualize revenues based on year end customers at the presently approved rate. Therefore, for the purposes of this proceeding, the appropriate operating revenues for the Company for the test year under the present rates and after accounting and pro forma adjustments are $8,784 which reflects a $692 increase in revenues. Using the Commission's Finding of Fact No. 13 and the Evidence and Conclusions, infra., approving a 37.66% operating margin, the Company's operating revenues after the approved increase and after the conditions established on pages 14 and 15 of this Order are $14,640.

MANAGEMENT FEE

Witness Moore testified that the Company does not currently pay any salaries. Mr. Moore proposed a $500 monthly management fee for administrative and maintenance oversight of the Company's business. According to Hearing Exhibit No. 1, the manager is responsible for all required maintenance of the water system which includes bleeding and flushing lines, checking pumps, taking water samples, and providing for general maintenance and arranging for specialized maintenance. In addition, the manager is responsible for all administrative duties which include, among others, sending out bills, paying expenses, arranging for bookkeeping and tax services, responding to customer requests, and responding to federal and state agency requests. Mr. Moore testified that as manager he spends approximately two hours a week on services for

Eagle Point.

The Commission concludes that a management fee is an appropriate expense for Eagle Point. The Commission finds, however, that based on the time spent on utility functions and the size of the utility, $500 a month is too large an expense; instead, the Commission concludes that $250 per month is a fair and reasonable management fee.

DEPRECIATION EXPENSE

The Commission's Staff witnesses proposed to reduce Eagle Point's depreciation expense by $1,205. The Staff's recommendation utilized the depreciation rates approved by this Commission. With no evidence to the contrary, the Commission concludes that the appropriate depreciation rates are those previously utilized by the Commission. Therefore, the Commission adopts the Staff's adjustment.

MISCELLANEOUS ADJUSTMENT

The Staff adjusted the Company's expenses to reflect items mistakenly omitted from its books. This adjustment increased the Company's per book operating and maintenance expenses by $7. The Commission finds this adjustment appropriate and hereby adopts the adjustment.

TAXES

The Commission Staff proposed to adjust the Company's taxes other than income and income taxes to reflect the effect of its pro forma adjustments. This adjustment increased the Company's taxes by $369. The Commission adopts the Staff's adjustment. It should be noted that taxes should be further adjusted to reflect the approved $3,000 management fee.

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NO. 9.

Based on the Commission's determinations concerning the Accounting and Pro Forma adjustments to the Company's revenues and expenses, and its determination as to the appropriate level of revenues and expenses, net income for return is found by the Commission as illustrated in the following Table:

TABLE A

NET INCOME FOR RETURN

BEFORE RATE INCREASE

Operating Revenues	$ 8,784
Operating Expenses	7,954
Net Operating Income	830
Customer Growth	-0-
Net Income for Return	$ 830

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NO. 10

Under the guidelines established in the decisions of Bluefield Water Works and Improvement Co. v. Public Service Commission of West Virginia, 262 U.S. 679 (1923), and Federal Power Commission v. Hope Natural Gas Co., 320 U.S. 591 (1944), this Commission does not ensure through regulation that a utility will produce net revenues. As the United States Supreme Court noted in the Hope Natural Gas decision, supra, the utility "has no constitutional rights to profits such as are realized or anticipated in highly profitable enterprises or speculative ventures." However, employing fair and enlightened judgment and giving consideration to all relevant facts, the Commission should establish rates which will produce revenues "sufficient to assure confidence in the financial soundness of the utility and...that are adequate under efficient and economical management, to maintain and support its credit and enable it to raise the money necessary for the proper discharge of its public duties." Bluefield, supra, at 692-693.

Neither S.C. Code Ann. §58-5-290 (1976) nor any other statute prescribes a particular method to be utilized by the Commission to determine the lawfulness of the rates of a public utility. For ratemaking purposes, this Commission examines the relationships between expenses, revenues, and investment in an historic test period because such examination provides a constant and reliable factor upon which calculation can be made to formulate the basis for determining just and reasonable rates. This method was recognized and approved by the Supreme Court for ratemaking purposes involving utilities in Southern Bell Telephone and Telegraph Co. v. The Public Service Commission of S.C., 270 S.C. 590, 244 S.E.2d 278 (1978).

For water utilities, where the utility's rate base has been substantially reduced by customer donations, tap fees, contributions in aid of construction, and book value in excess of investment, the Commission may decide to use the "operating ratio" and/or "operating margin" as guides in determining just and reasonable rates, instead of examining the utility's return on its rate base. The operating ratio is the percentage obtained by dividing total operating expenses by operating revenues. The obverse side of this calculation, the operating margin, is determined by dividing net operating income for return by the total operating revenues of the utility.

In this proceeding the Commission will use the operating margin as a guide in determining the lawfulness of the Company's proposed rates and, if necessary, the fixing of just and reasonable rates. This method was recognized as an acceptable guide for ratemaking purposes in Patton v. South Carolina Public Service Commission, 280 S.C. 288, 312 S.E.2d 257 (1984).

The following Table indicates the Company's gross revenues for the test year, after accounting and pro forma adjustments under the presently approved schedules; the Company's operating expenses for the test year after accounting and pro forma adjustments; and the operating margin under the presently approved schedules for the test year.

TABLE B
OPERATING MARGIN

BEFORE RATE INCREASE

Operating Revenues	$ 8,784
Operating Expenses	7,954
Net Operating Income (Loss)	830
Add: Customer Growth	-0-
Total Income for Return (Loss)	$ 830
Operating Margin (After Interest)	9.45%

The following Table shows the effect of the Company's proposed rate schedule, after accounting and pro forma adjustments approved herein:

TABLE C
NET INCOME FOR RETURN

AFTER RATE INCREASE

Operating Revenues	$14,640
Operating Expenses	9,127
Net Operating Income	5,513
Add: Customer Growth	-0-
Total Income for Return	5,513

The Commission is mindful of those standards delineated in the Bluefield decision, supra, and of the balance between the respective interest of the Company and of the consumer. The Commission has considered the spectrum of relevant factors in this proceeding: the revenue requirements for the Company, the proposed price for which the Company's service is rendered, the quality of that service, and the effect of the proposal upon the consumer, among others.

The three fundamental criteria of a sound rate structure have been characterized as follows:

> ...(a) the revenue-requirement or financial-need objective, which takes the form of a fair-return standard with respect to private utility companies; (b) the fair-cost apportionment objective which invokes the principle that the burden of meeting total revenue requirements must be distributed fairly among the beneficiaries of the service; and (c) the optimum-use or consumer rationing under which the rates are designed to discourage the wasteful use of public utility services while promoting all use that is economically justified

> in view of the relationships between costs incurred and benefits received.
>
> Bonbright, Principles of Public Utility Rates (1961), p. 292.

The Commission has considered the proposed increase presented by the Company in light of the various standards to be observed and the interests represented before the Commission. The Company presented the testimony of witness Moore who explained that Eagle Point was incurring increased expenses and that some expenses were paid with his personal funds. Witness David L. Lee, Jr., who testified on behalf of the POA stated that the POA was not opposed to a rate increase so long as the Company's service improved. Mr. Lee cited examples of low water pressure and problems with water quality.

Witness Tony Bledsoe testified on behalf of the POA. Mr. Bledsoe testified that his firm, Croft Engineering Company, was hired by the POA to evaluate the Eagle Point water system. Mr. Bledsoe testified that his investigation revealed a problem with a water pump which would at times reduce the water pressure to zero. He explained that Eagle Point had storage and pump capacity problems. Mr. Bledsoe estimated that a preliminary engineering evaluation of the water system to determine the extent of necessary improvements would cost between $1,000 and $2,000.

The Commission must balance the interests of the Company -- the opportunity to make a profit or earn a return on its investment, while providing adequate water service -- with the competing interests of the ratepayers -- to receive adequate service at a fair and reasonable rate. In weighing these considerations, the Commission notes that the POA supports a rate increase so long as the quality of service by Eagle Point improves. Further, the Commission recognizes that Eagle Point has not increased its rates since 1984 and that Mr. Moore has been personally paying some of the Company's expenses. Consequently, the Commission finds that Eagle Point should have an opportunity to earn a 37.66% operating margin. This operating margin requires annual operating revenues of $14,640. The following Table reflects an operating margin of 37.66%.

TABLE D
OPERATING MARGIN

AFTER RATE INCREASE

Operating Revenues	$ 14,640
Operating Expenses	9,127
Net Operating Income	5,513
Add: Customer Growth	-0-
Total Income for Return	5,513
Operating Margin (After Interest)	37.66%

In order to produce the revenues necessary to provide the opportunity to earn an operating margin of 37.66%, Eagle Point would need to charge its customers $20.00 per month. While it concludes that $20.00 may ultimately be a fair rate, the Commission is concerned about the quality of service currently provided to customers of Eagle Point. Consequently, the Commission hereby allows Eagle Point to charge $16.00 per month until the following conditions are satisfied:

1. Eagle Point shall have a study performed by a licensed

professional engineer to determine the improvements which need to be made on its system in order to rectify the problems with quality as expressed at the hearing and meet South Carolina Department of Health and Environmental Control (DHEC) standards.

2. Eagle Point shall submit this study, along with the DHEC requirements to the Commission Staff. The Staff will then present the engineering study to the Commission.

3. The Commission will review the study and issue an order setting forth which improvements must be made. The Commission may make other such findings as it deems appropriate.

4. Once the improvements have been made, the Company will notify the Commission Staff who, along with DHEC, will confirm the improvements have been made. The Staff may solicit certification from the engineer who conducted the study that the improvements have been made.

5. Once the Commission issues an Order finding that the improvements have been adequately completed, Eagle Point may charge $20.00 per month. The Commission may make other such findings as it deems appropriate.

The Commission finds and concludes that the rates and charges approved herein achieve a balance between the interests of the Company and those of its customers. These rates and charges result in a reasonable attainment of the Commission's ratemaking objectives in light of applicable statutory safeguards.

IT IS THEREFORE ORDERED:

1. The schedule of rates and charges attached hereto as Appendix A are hereby approved for service rendered on or after the date of this Order. The schedules are deemed to be filed with the Commission pursuant to S.C. Code Ann. §58-5-240 (1976), as amended.

2. Should these schedules not be placed in effect until three (3) months from the effective date of this Order, the schedules shall not be charged without written permission from the Commission.

3. The Company shall maintain its books and records in accordance with the NARUC System of Accounts for Class C Water Utilities, as adopted by this Commission.

4. This Order shall remain in full force and effect until further Order of the Commission.

BY ORDER OF THE COMMISSION:

Henry G. Yonce
Chairman

ATTEST:

Charles W. Ballentine
Executive Director

(SEAL)

APPENDIX A

EAGLE POINT WATER COMPANY, INC.
P. O. BOX 397
MANNING, S. C. 29102
(803) 435-8653

FILED PURSUANT TO:

DOCKET NO. 92-558-W

ORDER NO. 93-920

EFFECTIVE DATE: OCTOBER 14, 1993

WATER SERVICE

MONTHLY SERVICE CHARGE - FLAT RATE------------------$16.00

SCHEDULE OF OTHER CHARGES

TAP FEE--$100.00